

Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 IO-10 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 PRS-01 PA-02 /112 W

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R 231330Z DEC 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1889

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

USDEL MTN GENEVA

ZEO/AMCONSUL ZURICH

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DEPT PASS TREASURY AND FRB

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF DEC 14-20

1. SUMMARY: IN QUIET TRADING THE DOLLAR WEAKENED WHILE GOLD PRICES WERE STEADY. THE MONEY AND CAPITAL MARKETS ARE STILL VERY LIQUID AND THE CONFEDERATION PLANS A NEW BOND ISSUE IN JANUARY. THE SWISS NATIONAL BANK (SNB) PLANS TO MAINTAIN LOW-INTEREST RATES WHILE CONTINUING TO FOLLOW AN ANTI-INFLATIONARY POLICY ON 1976. ECONOMIC FORECASTS BY THE GOS, THE SWISS CREDIT BANK, AND SNB PRESIDZNT LEUTWILER ALL PREDICT AN UPSWING IN THE SWISS ECONOMY NEW YEAR,

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ALTHOUGH LEUTWILER BELIEVES THE IMPROVEMENT WILL NOT

BE VERY PRONOUNCED. DR LEUTWILER INDICATED IN A PRESS INTERVIEW THAT THE SWISS WILL HAVE TO LEARN TO LIVE WITH SOMEWHAT LESS PROSPERITY THAN THEY HAVE HAD OVER THE PAST FEW YEARS. THE VALUE OF IMPORTS CONTINUED TO FALL MORE THAN EXPORTS DURING NOVEMBER, AND SWITZERLAND HAD TRADE SURPLUSES WITH BOTH THE WORLD AND THE US.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: WITH THE APPROACH OF THE HOLIDAYS, ACTIVITY DECLINED AND TRADING WAS QUIET IN BOTH FOREIGN EXCHANGE AND GOLD. THE SPOT DOLLAR WEAKENED SOMEWHAT THIS WEEK WHILE THE DM FELL THEN REGAINED ITS MID-WEEK LOSSES. GOLD PRICES WERE STABLE. RATES AS FOLLOWS:

	12/15(OPEN)	12/19(CLOSE)
SPOT DOLLAR	SF 2.6380	SF 2.6270
FORWARD DISCOUNTS (PCT P A)		
ONE MONTH	- 2.3	- 2.9
2 MONTHS	- 2.7	- 3.1
3 MONTHS	- 3.0	- 3.3
6 MONTHS	- 3.4	- 3.5
12 MONTHS	- 3.2	- 3.3
SF/DM	SF 100.17	SF 100.15
GOLD	\$138.25	\$138.75

3. MONEY AND CAPITAL MARKETS: THE CALL MONEY RATE WAS UNCHANGED AT 0.5 PERCENT. PRICES CONTINUED TO MOVE UPWARD ON SWISS STOCK EXCHANGES AND THE SKA INDEX ROSE FROM 191.0 (END 1959 EQUALS 100) ON DEC 12 TO 194.3 ON DEC 19. THE FEDERAL COMMISSION RESPONSIBLE FOR REGULATING THE VOLUME OF NEW LOAN ISSUES HAS DECIDED TO APPROVE ALL 49 BOND APPLICATIONS SUBMITTED FOR THE FIRST QUARTER OF 1976. THESE NEW ISSUES WILL TOTAL APPROX SF 2 BILLION, OF WHICH SF 500 MILLION WILL BE ACCOUNTED FOR BY A NEW CONFEDERATION ISSUE SCHEDULED FOR JANUARY 16-22. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS WAS 5.93 PERCENT ON DEC 19, DOWN SLIGHTLY FROM 5.95 PERCENT UNCLASSIFIED

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A WEEK EARLIER.

4. SNB MONETARY POLICY: IN ITS REPORT FOR NOVEMBER, THE SNB STATED THAT ALTHOUGH THE MONETARY BASE HAS BEEN ALLOWED TO EXPAND A BIT MORE THAN ORIGINALLY PLANNED, THE ANNUAL INCREASE IN THE NARROWLY DEFINED MONEY SUPPLY (M1) IS WITHIN THE OBJECTIVES ESTABLISHED AT THE FIRST OF THE YEAR. (FROM AUG 1974 TO AUG

1975 M1 EXPANDED BY 4.0 PERCENT. THE ANNUAL GOAL SET IN JANUARY WAS FOR A 6 PERCENT GROWTH OF M1.) ALTHOUGH BANK CREDITS HAVE GROWN MORE SLOWLY THAN EXPECTED DUE TO THE RECESSION, THERE HAS BEEN A MARKED INCREASE IN THE AMOUNT OF CREDIT PROMISED BY THE BANKS TO DOMESTIC CUSTOMERS SINCE THE MIDDLE OF THE YEAR. THE SNB SEES THIS AS AN INDICATION THAT THE BUSINESS SECTOR IS PREPARING FOR AN UPTURN IN THE ECONOMY NEXT YEAR. THERE HAS ALSO BEEN A CONSIDERABLE GROWTH IN THE BANKS' HOLDING OF SECURITIES, WHICH CONSTITUTE A LARGE LIQUIDITY RESERVE THAT CAN BE USED TO BACK NEW CREDITS. AS LONG AS THE RECESSION CONTINUES, THE REPORT NOTES, THESE DEVELOPMENTS ARE NOT A CAUSE FOR CONCERN; THE SNB, HOWEVER, SAYS IT WILL KEEP A CLOSE WATCH ON THE UNDERLYING INFLATIONARY POTENTIAL. FOR NEXT YEAR THE SNB PLANS TO PROVIDE AN ADEQUATE SUPPLY OF LIQUIDITY AND KEEP INTEREST RATES LOW TO HELP THE ECONOMY EMERGE FROM RECESSION, BUT ALSO TO FOLLOW A NONINFLATIONARY POLICY.

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DEPT PASS TREASURY AND FRB

ECONOMIC

5. ECONOMIC FORECASTS: THE LATEST REPORT OF THE GOVT'S ECONOMIC RESEARCH COMMISSION STATES THAT THE MARKED DOWNSWING IN THE SWISS ECONOMY SINCE AUTUMN 1974 IS CONTINUING, ALBEIT AT A SLOWER PACE THAN BEFORE. OVERALL CAPACITY UTILIZATION IN THE THIRD QUARTER OF 1975 WAS DOWN TO 75 PERCENT FROM A YEAR EARLIER, ALTHOUGH SOME SECTORS WERE EVEN MORE DEPRESSED. IN THE COMMISSION'S VIEW, THE DOWNWARD TREND OF THE ECONOMY WILL CONTINUE FOR AT LEAST SEVERAL MORE MONTHS; WHILE RECOVERY IN OTHER COUNTRIES WILL BE BASED ON REPLACEMENT
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OF DEPLETED INVENTORIES, STOCKS IN SWITZERLAND ARE LARGELY EXCESSIVE AT ALL STAGES OF PRODUCTION. ON THE BRIGHTER SIDE, THE REPORT NOTES THAT THE RATE OF INFLATION HAS SLOWED IN THE PAST FEW MONTHS AND WAGES ARE RISING MORE SLOWLY THAN LAST YEAR. USING ITS NEWLY DEVELOPED ECONOMETRIC MODEL OF THE SWISS ECONOMY, THE SWISS BANK CORPORATION (SBC) ANTICIPATES ECONOMIC RECOVERY WILL BEGIN IN THE SUMMER OF 1976 BUT THAT REAL GNP WILL NOT BEGIN TO GROW UNTIL 1977, WHEN THE MODEL PREDICTS AN EXPANSION OF 3.8 PERCENT. THE MAIN STIMULUS TO BUSINESS ACTIVITY NEXT YEAR IS EXPECTED TO COME FROM A REVIVAL OF FOREIGN DEMAND, WHILE PRIVATE DOMESTIC DEMAND IS EXPECTED TO CONTINUE FALLING SLOWLY. CONSUMER PRICE INCREASES THROUGH 1977 WILL AVERAGE 5-6 PERCENT ANNUALLY. IN

A PRESS INTERVIEW THIS WEEK, SNB PRESIDENT LEUTWILER SAID THAT WHILE ECONOMIC RECOVERY SHOULD BEGIN NEXT AUTUMN, IT WAS NOT LIKELY TO BE VERY PRONOUNCED; THE TENDENCY WILL BE FOR THE ECONOMY TO STABILIZE AT A LOWER LEVEL OF ACTIVITY THAN HAS BEEN EXPERIENCED IN THE PAST FEW YEARS. DR LEUTWILER, HOWEVER, SAW NO REASON FOR PESSIMISM, EVEN THOUGH 1976 AND 1977 ARE LIKELY TO BE HARD YEARS FOR THE SWISS. IN THE LONGER TERM, MODERATE OPTIMISM IS WARRANTED WITH REGARD TO THE STRENGTH OF THE SWISS ECONOMY. IN DR LEUTWILER'S OPINION, THE MAIN PRIORITY OF SWISS ECONOMIC POLICY REMAINS THE CONTROL OF INFLATION; ALTHOUGH THE CURRENT 3.7 PERCENT RATE OF INFLATION IS LOW COMPARED TO OTHER INDUSTRIALIZED COUNTRIES, THE AIM IN 1976 WILL BE TO BRING THE RATE DOWN TO 3 PERCENT OR LESS.

INTEREST RATES WILL REMAIN LOW AND MAY GO DOWN FURTHER.

6. INDUSTRIAL PRODUCTION DOWN: INDUSTRIAL PRODUCTION IN THE THIRD QUARTER OF 1975 WAS 14 PERCENT BELOW THE CORRESPONDING PERIOD LAST YEAR. THE OUTPUT DECLINE WAS LESS PRONOUNCED THAN IN THE SECOND QUARTER WHEN PRODUCTION WAS DOWN 17 PERCENT ON AN ANNUAL BASIS.

7. BUILDING COSTS DROP: THE COST OF NEW RESIDENTIAL CONSTRUCTION IN THE ZURICH AREA DECLINED 5.8 PERCENT FROM OCTOBER 1974 TO OCTOBER 1975 THIS COMPARES UNCLASSIFIED

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WITH
A 7 PERCENT INCREASE DURING THE PRECEDING TWELVE MONTHS.

8. GOVT SALARIES: EFFECTIVE JAN 1, 1976, THE SALARIES OF ALL SWISS FEDERAL EMPLOYEES WILL BE INCREASED 4.1 PERCENT TO COMPENSATE FOR THE RISE IN THE COST OF LIVING DURING 1975.

9. FOREIGN TRADE: DURING NOVEMBER, SWITZERLAND RECORDED THE FOURTH MONTHLY SURPLUS IN ITS MERCHANDISE TRADE WITH BOTH THE WORLD AND WITH THE US. THE PATTERN OF PREVIOUS MONTHS CONTINUED AS THE VALUE OF IMPORTS, IN COMPARISON WITH THE PREVIOUS NOVEMBER, FELL MORE SHARPLY THAN THE DECLINE IN EXPORTS. THE NOVEMBER SURPLUS IN WORLD TRADE WAS SF 445 MILLION, A MARKED TURNABOUT FROM THE SF 200 MILLION DEFICIT OF NOVEMBER 1974; THE SF 29 MILLION SURPLUS WITH THE US WAS ALSO QUITE A CHANGE FROM THE YEAR-EARLIER DEFICIT OF SF 16 MILLION. FOR THE FIRST ELEVEN MONTHS OF 1975, SWITZERLAND'S TRADITIONAL TRADE DEFICIT WAS RELATIVELY SMALL; IN WORLD TRADE THE DEFICIT WAS ONLY ABOUT ONE-SIXTH THE AMOUNT REGISTERED IN JAN-NOV 1974, ALTHOUGH THE DEFICIT WITH THE US WAS DOUBLE LAST YEAR'S. THE US SHARE OF TOTAL SWISS IMPORTS WAS 7.6 PERCENT IN THE FIRST ELEVEN MONTHS THIS YEAR, COMPARED WITH 6.4 PERCENT DURING THE SAME PERIOD IN 1974. TRADE FIGURES ARE SHOWN BELOW:

	WORLD	US
	MILLION SF (PCT. CHANGE OVER SAME PERIOD 1974)	
NOVEMBER		
IMPORTS	2,562(-23.8)	172 (-19.4)
EXPORTS	3,008 (-4.9);	201 (-12.6)
JAN-NOV		
IMPORTS	31,432 (-21.0)	2,382 (-6.2)
EXPORTS	30,358 (-6.6)	1,921 (-17.0).

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